

3. A Few Useful Terms:
   * Structural Transformation
   * Wage Good
   * Transaction Costs
   * Interlocked Transactions
KEY ASPECTS OF STRUCTURAL TRANSFORMATION:

1. Generation of Surplus Production

2. Movement from Subsistence to Commercial Agriculture ==> ag. productivity growth

3. Rural-to-urban migration, number of farms shrink, size of farms increase.

4. People specialize in a range of non-farm activities and rely on a smaller number of farms to meet their food needs

5. Rising importance of markets to coordinate exchange.
KEY DIFFERENCES IN FOOD MARKETING SYSTEMS:  US / W. EUROPE vs. AFRICA

IN US / W. EUROPE:

! Futures and Option Markets to Shift and Absorb Risks

! Transparent Commodity Exchanges

! Low-cost Market Information Accessible on Daily Basis

! Large Volumes Traded; Spreads Fixed Costs

! Globalized Trading Networks to Reduce Covariant Risks

! Well-specified Grades and Standards
Complex Contracting Arrangements to Reduce Costs and Risks of Exchange and Investment

Legal System and Contract Enforcement Reduce Risks of Investment

Establishment of Collateral to Develop Financial Markets
CHARACTERISTICS OF AGRICULTURAL MARKETS IN AFRICA:

1. Farm Size Structure: Mostly Small Farms / Concentrated Landholdings.

2. Most Farm Households Are Both Producers and Consumers ==> Production ≠ Supply. Typically Production Much Larger than Supply.

3. Trading Small Volumes in Spot Markets -- High Transaction Costs

4. Small Changes in Production ==> Potentially Large Changes in Supply


6. Food as “Wage Good” (Commodity That Comprises a Large Share of Consumer Expenditures). As Governments Try to Keep Budget Deficits Down ==> Bias Toward Low Food Prices.
7. **Limited Coordination Between Input Delivery, Credit, and Output Markets — Credit Systems Function Mainly Where Interlocked Transactions Are Feasible.**

8. **Very High Transport Costs (e.g., Ethiopia-Kenya)**

9. **Limited Public Market Information, Especially in Neighboring Countries — Asymmetric Information**

10. **Weak Forward Markets — Raises Risks of Investment and Exchange**

11. **Limited Grades and Standards (Forces Visual Inspection Instead of Remote Contracting by Quality Specification).**
12. Limited Legal Recourse in Event of Contract Dispute / Non-compliance ==> Rise of Interlinked Transactions

13. Constrained Credit Contributes to Barriers to Investment (e.g., Sales Volumes of Fertilizer Retailers).
Table 1. Distribution of Farms by Size and as a Proportion of Total Rural Land

<table>
<thead>
<tr>
<th>Size in hectares</th>
<th>&lt; 0.1</th>
<th>0.1-0.5</th>
<th>0.5-1.0</th>
<th>1.0-2.0</th>
<th>2.0 - 5.0</th>
<th>5.0 - 10.0</th>
<th>10.01 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Farms</td>
<td>3.5</td>
<td>27.6</td>
<td>26.5</td>
<td>23.4</td>
<td>15.2</td>
<td>2.8</td>
<td>1</td>
</tr>
<tr>
<td>Total Rural Land</td>
<td>0.2</td>
<td>5.8</td>
<td>12.4</td>
<td>22.3</td>
<td>30.0</td>
<td>12.1</td>
<td>17.2</td>
</tr>
</tbody>
</table>
LINKAGES BETWEEN US AGRICULTURE AND LDC AGRICULTURE

- Population Growth Rising Rapidly in “Developing” World.
- Agriculture Is the Main Source of Income for Most Rural Households in LDCs.
- Income Growth in Developing Countries Will Be Critical to Maintain Demand for Primary Ag Products by US Farmers.